



Foxconn

AN OVERVIEW

Who is Foxconn?

- ▶ Hon Hai Precision Industry Co., Ltd., trading as Foxconn Technology Group, is a multinational electronics contract manufacturing company headquartered in Tucheng, New Taipei, Taiwan. Foxconn is the world's largest contract electronics manufacturer and the fourth-largest information technology company by revenue. The company is the largest private employer in China and one of the largest employers worldwide. Its founder and chairman is Terry Gou.

What is Foxconn's Plan in Wisconsin?


- ▶ The plan calls for an immense liquid crystal display panel factory on 1,000 acres a few miles west, in Mount Pleasant.
- ▶ The company said it will produce nearly 7 million high-definition LCD panels a year on a campus totaling 32 million square feet. Foxconn previously has said its buildings would cover 20 million square feet.
- ▶ The company has said the plant will be equipped with 3,263 pieces of equipment and will include molding and tool-and-die operations, final assembly and "back-end packaging" of LCD modules.
- ▶ Foxconn believes its high-definition panels will be increasingly used in fields such as security, medicine and advanced manufacturing,

State Taxpayers Direct Commitment for Foxconn

- ▶ Foxconn has committed to building an up to \$9 billion plant over six years to make liquid crystal displays and create up to 13,000 jobs.
- ▶ Foxconn would receive up to \$2.85 billion in cash payments from state taxpayers over 15 years and additional sales tax exemptions on construction materials for the plant valued at \$150 million.
 - ▶ But the other tax incentives will be paid as cash if Foxconn doesn't owe taxes. The company very likely won't owe any — Wisconsin law already exempts manufacturers from almost all corporate and income taxes.
- ▶ To get the full payments, Foxconn's employment here must rise to 5,200 by 2022, to 10,400 by 2027, and to 13,000 by 2032. Workers must be paid at least \$30,000 a year, and the average annual salary must be at least \$53,900.

Contract Language

- ▶ Through 2022, Wisconsin could recoup all of the tax credit money if Foxconn lies to the state, shuts down its manufacturing operations or moves them elsewhere. Beginning in 2023, those potential penalties are capped at \$965 million, and fall to \$386 million by 2032.
- ▶ Wisconsin also could claw back additional money — up to \$500 million beginning in 2023 and then steadily decreasing — if Foxconn doesn't hit minimum jobs numbers.
- ▶ Hon Hai Precision Industry Co. Ltd. — the overarching corporate entity informally known as Foxconn — would cover 75% of any penalties. Gou himself would cover 25%.

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- ▶ The company has said the plant would employ 3,000 workers at the beginning but the state's agreement in principle with Foxconn has no minimum jobs requirement.
 - ▶ The offer to Foxconn is roughly 46 times larger than the previous record deal by Wisconsin to a manufacturer. In 2010, the state offered \$65 million to Mercury Marine of Fond du Lac in exchange for creating roughly 1,000 jobs and retaining roughly 1,900 more.

Economic and Financial Impact to Wisconsin

- ▶ A study paid for by Foxconn projected that the ripple effect of a 13,000-worker plant would generate an additional 22,200 local jobs. A study paid for by the state found the plant would lead to between 12,000 and 18,100 extra jobs.
- ▶ Both studies start by assuming Foxconn will hit the 13,000 job mark, which might not happen.
- ▶ The Foxconn study projected 16,200 short-term jobs from the plant construction and its ripple effect. The state analysis found between 20,400 and 24,900 jobs from construction.
- ▶ The Legislature's nonpartisan budget office found it would take until 2043, or 25 years, if the company does reach its predicted employment levels. So far, no outside study has looked at whether it is reasonable to expect a Foxconn plant to employ 13,000 workers.

Local Incentives

- ▶ Racine County and the Village of Mount Pleasant, which together have committed to \$764 million in local incentives for Foxconn, an agreement that has yet to be formally signed.

Transportation Funding

- ▶ \$252.4 million in state bonding that was authorized to pay for the nearby expansion of Interstate 94. With interest payments, the total cost rises to \$408.3 million.
- ▶ Wisconsin is shifting \$134 million away from other state highway projects to do local road work related to the massive Foxconn factory being built in Racine County.
 - ▶ Due to budget savings, the estimated impact to state highway projects around Wisconsin will be as much as \$90 million.
- ▶ Under current levels of state funding, the condition of state roads is expected to deteriorate over the next decade.

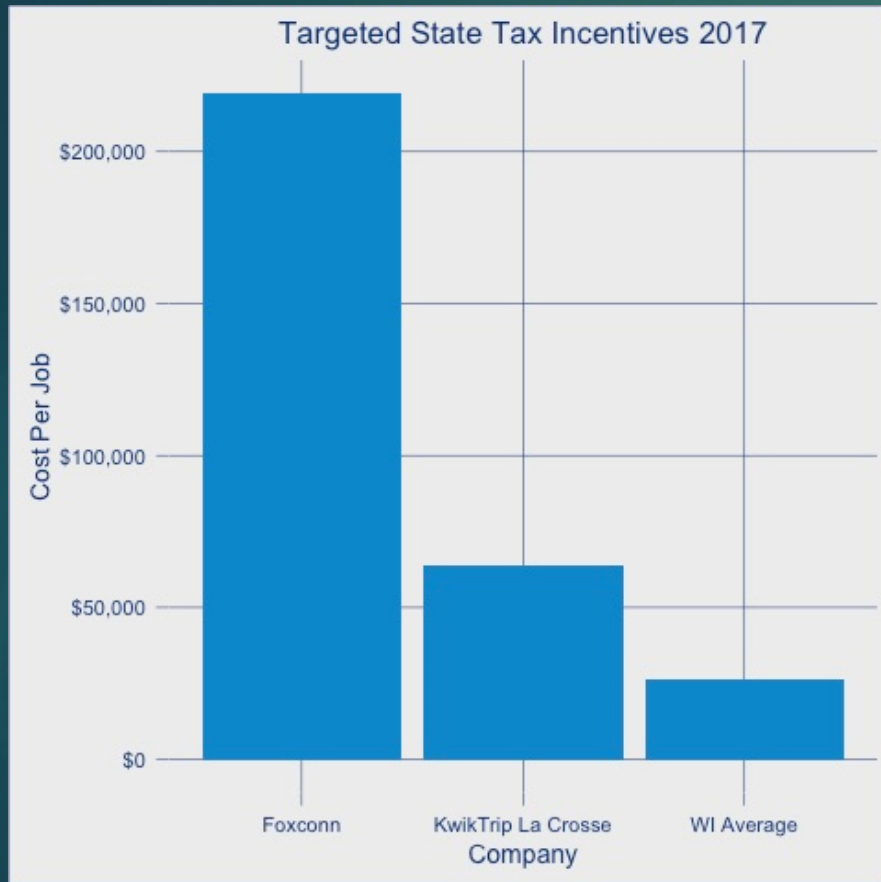
Utility Charges

- ▶ American Transmission Co. has proposed the construction of a 14-mile, 345-kilovolt transmission line, a new 345/138-kV substation and new underground 138-kV lines to connect a substation to a Foxconn-owned substation near the planned \$10 billion manufacturing plant.
- ▶ The cost of the proposed power line will be passed from ATC to its power company customers, including We Energies. We Energies is allowed, by law, to add those costs to its rate base.
- ▶ The total cost is estimated to be \$140 million.

Cost Breakdown

State/ Local Cost	Amount \$
State Tax Credits	2.85 billion
Local Incentives (TIF District)	764 million
Expedited I-94 Project (plus debt service)	408.3 million
ATC Project / Utility Costs	140 million
Sales and Use Tax Exemption	139 million
Highway Rehab	134 million
DWD Worker Training and Employment	20 million
Grants to Local Governments	15 million
Economic Development Liaison	400,000
Total	4.4705 billion

Tax Incentive Comparison



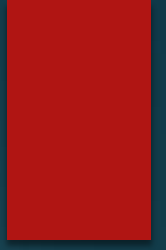
Wisconsin is paying \$230,000 per job, 10 times more per job than the national average.

Source: Journal Sentinel - Foxconn package cost Wisconsin eight times as much per job as similar 2017 state jobs deals (Feb. 5, 2018)

Additional Costs Not Considered by State

- ▶ *“I don’t think the state of Wisconsin will ever make money on this deal,” he says. “Once you account for public spending needs due to an increased population, the state will never break even.”*

-Tim Bartik, an economist at the W.E. Upjohn Institute for Employment Research



Environmental Impact

Environmental Exemption on Wetlands

- ▶ The state Department of Natural Resources would not require Foxconn to seek approval for construction activity on some types of wetlands, which can retain storm water, filter pollution and provide habitat for wildlife.
- ▶ The state exemption could allow the destruction of wetlands that are only regulated by the state and are not connected to a navigable stream, lake or river.
- ▶ The legislation would also allow Foxconn to perform construction in waterways without a permit and would waive the requirement for a state environmental impact statement and public hearing. This might be required by the Army Corps, although the focus of the Corps' work could be different than the state's.
- ▶ The company would still be required to obtain permits for air emissions, releases of wastewater and hazardous waste.

Environmental Exemption on Wetlands

- ▶ At the time legislation was passed, lawmakers were assured that the U.S. Army Corps of Engineers would retain oversight . However, the Corps has since said it has no jurisdiction over wetlands that will be filled as part of Foxconn Technology Group's plans for a massive electronics plant in rural Racine County.
 - ▶ The effect of the Corps' decision means the public will have no say in wetlands impacts caused by the project.
- ▶ Foxconn is expected to occupy about 22 million square feet in the Village of Mount Pleasant for manufacturing liquid crystal display panels.
- ▶ Wetlands are generally protected because they prevent flooding. They also play key roles as habitat for wildlife and for filtering pollutants.
- ▶ A federal wetlands permit could have required Foxconn to look for alternatives or minimize the impact on wetlands, and Kamp said citizens, or lawyers representing them, could have filed comments on project.
- ▶ There was also the potential that the Corps would have held a public hearing in which the public could have asked questions about the scope of the project.

Expected Water Usage

- ▶ Foxconn plans to siphon 7 million gallons of water a day from Lake Michigan
- ▶ Great Lakes Compact — the 2008 agreement of eight states and two Canadian provinces that prohibits water from being diverted, in most cases, outside the Great Lakes basin
- ▶ Foxconn will be required to pre-treat its waste and the city said it will oversee that effort — likely on a daily basis. Racine will then process Foxconn's waste and must adhere to government standards.
- ▶ Wording in the GLC says new diversions must be for “public water supply purposes,” which would serve “a group of largely residential customers.”
- ▶ Of the 7 million gallons a day Racine would supply to Mount Pleasant, 5.8 million gallons — 83% — would be earmarked for Foxconn, according to Racine's diversion application.
- ▶ In all, 2.7 million gallons — 39% — would be lost, mostly through evaporation and the company's manufacturing operations. That's below the 5 million gallons a day that would trigger other states to review the request.

Chicago Tribune

Foxconn finds way to stick 7 million-gallon straw into Lake Michigan

journal sentinel
PART OF THE USA TODAY NETWORK

Foxconn industrial operations would represent a major new source of air pollution in region

The Journal Times

Study: Foxconn plant would add to air pollution in Wisconsin

Other Issues and Concerns

- ▶ Eminent domain: Property owners being forced off of their land. Potential litigation and cost.
- ▶ Labor shortage: Wisconsin already has a significant shortage of workers. It is unclear how Foxconn will meet demand, or what the impact will be on other businesses.
- ▶ Opportunity costs: Every dollar spent on Foxconn is not available for small business development or investment in job training or education. How could this \$ be better spent if economic growth and opportunity are the goals?
- ▶ Budget pressure: The cash payments come at the expense of other state programs such as public schools and the UW System. If there is a national recession, there will be cuts to these programs as the state is contractually obligated to make cash payments to Foxconn.
- ▶ Risk: With a 25-year payback, what is the likelihood of LCD screens still being in demand as technology continually changes?



Questions?